

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Capac	County St. Clair
Fiscal Year End June 30, 2006	Opinion Date October 25, 2006	Date Audit Report Submitted to State December 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

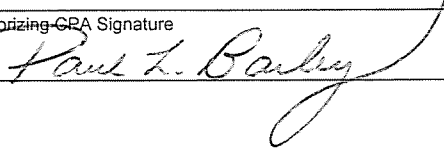
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple		Telephone Number 810-984-3829	
Street Address 1979 Holland Ave.		City Port Huron	State MI
		Zip 48060	
Authorizing CRA Signature 		Printed Name Paul L. Bailey	License Number 1101014088

VILLAGE OF CAPAC, MICHIGAN

**ANNUAL FINANCIAL STATEMENTS
with Supplementary Information**

FOR THE YEAR ENDED JUNE 30, 2006

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

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St. Clair County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the President and Members
of the Village Council
Village of Capac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Capac, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Capac's management. Our responsibility is to express opinions on these financial statements based on our audit.

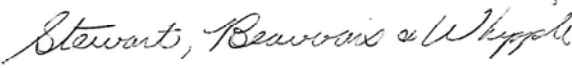
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Capac, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2006, on our consideration of the City of Capac's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7, and schedules of budgetary comparisons on pages 38 through 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Capac, Michigan's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

October 25, 2006

OVERVIEW OF THE FINANCIAL STATEMENTS

The Village of Capac's 2006 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information. The basic financial statements include two kinds of statements that present different views of the Village. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Village's government, reporting the Village's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Village's net assets and how they have changed. Net assets, defined as the difference between the Village's assets and liabilities, are one way to measure the Village's financial health or position.

The government-wide financial statements of the Village are divided into two categories:

Governmental activities - most of the Village's basic services are included here, such as the police, fire, public works, parks and recreation, general administration and debt retirement. Property taxes, state-shared revenues, charges for services, provided most of the funding.

Business-type activities - the Village charges fees to customers to help it cover the costs of certain services it provides. The water, sewer and trash operations are treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds; not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes.

The Village has three kinds of funds:

Governmental funds - Most of the Village's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. The Village currently has eight (8) governmental funds.

Proprietary funds - Services for which the Village charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The Village currently has three (3) proprietary funds.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Village's operations.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The Village has combined total net assets of \$5,820,764. This is an increase of \$420,070 over 2005. Government-type activities comprise \$1,466,276, and business-type activities make up \$4,354,488 of the total net assets. In a condensed format, the table below shows net assets as of June 30, 2006 and 2005:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets				
Current assets	\$ 771,750	\$ 740,430	\$ 67,446	\$ 49,941
Restricted assets	-	-	374,116	368,940
Other assets	-	-	50,324	57,915
Capital assets	<u>895,417</u>	<u>805,436</u>	<u>5,913,387</u>	<u>5,649,297</u>
Total assets	<u>1,667,167</u>	<u>1,545,866</u>	<u>6,405,273</u>	<u>6,126,093</u>
Liabilities				
Current liabilities	36,450	89,662	262,839	37,098
Long-term liabilities	<u>164,441</u>	<u>186,558</u>	<u>1,787,946</u>	<u>1,957,947</u>
Total liabilities	<u>200,891</u>	<u>276,220</u>	<u>2,050,785</u>	<u>1,995,045</u>
Net Assets				
Invested in capital assets -				
Net of related debt	738,764	628,851	3,834,401	3,735,797
Restricted	640,201	636,938	374,116	368,940
Unrestricted	<u>87,311</u>	<u>3,857</u>	<u>145,971</u>	<u>26,311</u>
Total net assets	<u>\$ 1,466,276</u>	<u>\$ 1,269,646</u>	<u>\$ 4,354,488</u>	<u>\$ 4,131,048</u>

The Village's governmental activities experienced a net change in assets of \$196,630. The business-type activities experienced an increase in net assets of \$223,440.

The following table shows the changes in net assets for 2006 and 2005:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue				
Program revenue:				
Charges for services	\$ 38,175	\$ 43,613	\$ 603,378	\$ 436,194
Operating grants and contributions	151,117	173,125	-	-
General revenue:				
Property taxes	490,364	483,822	107,640	105,057
State-shared revenue	217,130	219,573	-	-
Other unrestricted grants	42,606	15,552	-	-
Unrestricted investment earnings	12,786	13,341	8,943	4,086
Gain on sale of asset	16,990	-	-	-
Total Revenue	<u>969,168</u>	<u>949,026</u>	<u>719,961</u>	<u>545,337</u>
Program Expenses				
General government	171,431	243,968	-	-
Public safety	294,622	486,138	-	-
Public works	243,905	228,479	-	-
Economic development	34,008	-	-	-
Recreation and cultural	18,163	26,207	-	-
Other activities	39,457	74,492	-	-
Interest on long-term debt	5,600	6,467	-	-
Water	-	-	221,369	218,204
Sewer	-	-	250,560	257,050
Trash	-	-	78,592	67,470
Total Program Expenses	<u>807,186</u>	<u>1,065,751</u>	<u>550,521</u>	<u>542,724</u>
Changes in net assets before transfers	161,982	(116,725)	-	2,613
Transfers between funds	<u>34,648</u>	<u>(97,667)</u>	<u>54,000</u>	<u>97,667</u>
Changes in net assets	<u>\$ 196,630</u>	<u>\$ (214,392)</u>	<u>\$ 223,440</u>	<u>\$ 100,280</u>

Governmental Activities

Revenues for governmental activities totaled \$969,168 in 2006. Of this amount, \$490,364 or 51% was received from taxes followed by State Shared Revenue of \$217,130 or 22%.

Business-type Activities

The Village has three business-type activities, sewer, water and trash. The Village provides water to the Village users from the Village wells. The Village provides sewage disposal services with a Lagoon system. Trash services are contracted by the Village. For the year ended June 30, 2006, the sewer, water and trash funds had a net increase (decrease) of \$30,824, \$192,753 and \$(137), respectively.

FINANCIAL ANALYSIS OF MAJOR FUNDS

The General Fund had a total fund balance of \$11,185. When the reserved fund balance of \$1,142 is removed, the general fund had an unreserved/undesignated fund balance of \$10,043. This is an increase of \$118,364 from the prior year, including a prior period adjustment of \$50,000 due to a change in reporting amounts due between funds.

The remaining major governmental funds reported a change in fund balance during the year and had a fund balance at June 30, 2006 of the following:

	Increase (Decrease) <u>In Fund Balance</u>	<u>Fund Balance</u>
Major Street	\$ (21,918)	\$ 130,131
Water and Sewer Connection Fee	(35,459)	321,151
Police	6,416	6,416

The other major funds are the Sewer, Water and Trash Funds, which have been discussed earlier.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Village Administration and Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. The original general fund estimated expenditures and transfers for the year were \$670,341 and the final budget estimated expenditures were \$709,956 for a difference of \$39,615. The most significant variations from original to final budgets and final budget to actual are as follows:

General Fund

- The police department had an original budget of \$255,879 but the final budget was eliminated as these expenditures were moved to a separate fund. A transfer out was made in the general fund to offset the expenditures in the Police Fund.

Other Funds

- The Village had excess in funds in the Major Street Fund and decided to pave four blocks of major street, which were in need of repair.
- The Village anticipated the Arsenic Treatment Plant to be completed so they could blacktop Walker Street. Since the water line did not get put into the Arsenic Plant, they tabled the project until 2007.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Village had \$6,808,804 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2006. The investment in capital assets includes land, buildings and building improvements, machinery and equipment, vehicles, and water and sewer systems. Infrastructure (e.g. roads, drains, etc.) purchased on or after July 1, 2003 is also included. During the year the Village added approximately \$527,897 of capital assets before taking into account depreciation, \$145,061 in the governmental activities and \$382,836 in the business-type activities. The additions in the governmental activities are primarily due to street and sidewalk improvements. The additions in the business-type activities are primarily due to a water system improvement project the Village began in the summer of 2006. Depreciation for the year was \$55,080 in the governmental activities and \$118,746 in the business-type activities.

The following table shows the capital assets at June 30, 2006:

	Governmental Activities	Business-type Activities
Land	\$ 99,254	\$ 39,000
Land improvements	86,779	-
Building and improvements	654,668	-
Machinery and equipment	219,523	56,376
Vehicles	246,245	-
Infrastructure	48,000	-
Utility systems	-	8,804,084
Construction in progress	<u>150,592</u>	<u>477,694</u>
	1,505,061	9,377,154
Accumulated depreciation	<u>(609,644)</u>	<u>(3,463,767)</u>
	<u>\$ 895,417</u>	<u>\$ 5,913,387</u>

Long-term Debt

At June 30, 2006 the Village had \$1,952,387 in long-term debt compared to \$2,144,505 at June 30 2005. During the year the Village refinanced the Police Building Note for \$150,281. The following table shows the long-term debt at June 30, 2006:

	Governmental Activities	Business-type Activities
Bonds/Loans	\$ -	\$ 1,785,000
Notes/Contracts Payable	156,653	-
Compensated Absences	<u>7,788</u>	<u>2,946</u>
	<u>\$ 164,441</u>	<u>\$ 1,787,946</u>

Additional information on long-term debt can be found in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Village of Capac, as with many other cities and villages, continues to see little or no revenue increases. We continue to make cuts and expect to have a balanced budget. We have raised both water and sewer rates the last two (2) years to allow us to pay the bond issue to expand the water system and build an arsenic treatment plant.

CONTACTING THE VILLAGE

This financial report is designed to provide a general overview of the Village's finances to our residents and other interested parties in understanding the Village's financial condition. If you have questions about this report or need additional financial information, please contact the Village Manager, at 810-395-4355, or in writing to the same, 131 North Main Street, Capac, MI 48014.

BASIC FINANCIAL STATEMENTS

VILLAGE OF CAPAC, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 334,256	\$ 64,454	\$ 398,710	\$ 278,670
Investments	129,620	-	129,620	-
Receivables (net of allowance)	145,525	132,538	278,063	-
Prepaid expenses	30,491	2,312	32,803	-
Internal balances	141,375	(131,858)	9,517	-
Restricted Assets -				
Cash and cash equivalents	-	213,600	213,600	-
Investments	-	65,673	65,673	-
Deposits with County	-	94,843	94,843	-
Deferred Charges	-	50,324	50,324	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	249,846	516,694	766,540	9,783
Assets being depreciated	645,571	5,396,693	6,042,264	-
Total Assets	<u>1,676,684</u>	<u>6,405,273</u>	<u>8,081,957</u>	<u>288,453</u>
LIABILITIES:				
Payables and accrued liabilities	31,250	247,432	278,682	736
Accrued interest	-	15,407	15,407	-
Unearned revenue	5,200	-	5,200	-
Non-current liabilities				
Due within one year	13,211	160,000	173,211	-
Due in more than one year	151,230	1,627,946	1,779,176	-
Total Liabilities	<u>200,891</u>	<u>2,050,785</u>	<u>2,251,676</u>	<u>736</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	738,764	3,834,401	4,573,165	9,783
Restricted -				
Streets	260,404	-	260,404	-
Debt Service	-	279,273	279,273	-
Capital Projects	379,797	94,843	474,640	-
Unrestricted	<u>87,311</u>	<u>145,971</u>	<u>233,282</u>	<u>277,934</u>
Total Net Assets	<u>\$ 1,466,276</u>	<u>\$ 4,354,488</u>	<u>\$ 5,820,764</u>	<u>\$ 287,717</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CAPAC, MICHIGAN

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	171,431	14,402	-	-
Public Safety	294,622	16,320	24,667	-
Public Works	243,905	3,569	119,719	-
Community and Economic Development	34,008	3,884	-	-
Recreation and Culture	18,163	-	6,731	-
Other Activities	39,457	-	-	-
Interest on Long Term Debt	5,600	-	-	-
Total governmental activities	<u>807,186</u>	<u>38,175</u>	<u>151,117</u>	<u>-</u>
Business type activities:				
Sewer	250,560	151,690	-	-
Water	221,369	373,399	-	-
Trash	78,592	78,289	-	-
Total business type activities	<u>550,521</u>	<u>603,378</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u><u>1,357,707</u></u>	<u><u>641,553</u></u>	<u><u>151,117</u></u>	<u><u>-</u></u>
Component Units				
Downtown Development Authority	<u>2,797</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Component Units	<u><u>2,797</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

General revenues:

Property taxes

Grants and contributions not
restricted to specific programs -

State shared revenue

Other

Unrestricted investment income

Gain on disposal of assets

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Prior period adjustment

Net assets at beginning of year, restated

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		Total	Component Unit (DDA)
Governmental Activities	Business Type Activities		
(157,029)	-	(157,029)	-
(253,635)	-	(253,635)	-
(120,617)	-	(120,617)	-
(30,124)	-	(30,124)	-
(11,432)	-	(11,432)	-
(39,457)	-	(39,457)	-
(5,600)	-	(5,600)	-
<u>(617,894)</u>	<u>-</u>	<u>(617,894)</u>	<u>-</u>
-	(98,870)	(98,870)	-
-	152,030	152,030	-
-	(303)	(303)	-
<u>-</u>	<u>52,857</u>	<u>52,857</u>	<u>-</u>
<u>(617,894)</u>	<u>52,857</u>	<u>(565,037)</u>	<u>-</u>
-	-	-	(2,797)
-	-	-	(2,797)
490,364	107,640	598,004	55,762
217,130	-	217,130	-
42,606	-	42,606	-
12,786	8,943	21,729	4,506
16,990	-	16,990	-
34,648	54,000	88,648	(88,648)
<u>814,524</u>	<u>170,583</u>	<u>985,107</u>	<u>(28,380)</u>
<u>196,630</u>	<u>223,440</u>	<u>420,070</u>	<u>(31,177)</u>
1,269,646	4,131,048	5,400,694	330,997
-	-	-	(12,103)
<u>1,269,646</u>	<u>4,131,048</u>	<u>5,400,694</u>	<u>318,894</u>
<u>\$ 1,466,276</u>	<u>\$ 4,354,488</u>	<u>\$ 5,820,764</u>	<u>\$ 287,717</u>

VILLAGE OF CAPAC, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2006

	General	Major Street	Police	Water and Sewer Connection Fees
ASSETS				
Assets:				
Cash and cash equivalents	\$ 30,393	\$ 101,769	\$ 6,815	\$ 5,615
Investments	-	-	-	129,620
Receivables -				
Taxes	51,239	-	-	-
Accounts	3,204	-	-	-
Due from other governmental units -				
State	69,585	13,822	-	-
Due from other funds	31,265	18,988	7,230	185,916
Prepaid expenditures	1,142	267	2,326	-
	<u>1,142</u>	<u>267</u>	<u>2,326</u>	<u>-</u>
Total Assets	<u>\$ 186,828</u>	<u>\$ 134,846</u>	<u>\$ 16,371</u>	<u>\$ 321,151</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 10,916	4,715	7,791	-
Accrued liabilities	2,048	-	2,164	-
Deposits payable	481	-	-	-
Due to other funds	110,959	-	-	-
Deferred revenue	51,239	-	-	-
	<u>51,239</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>175,643</u>	<u>4,715</u>	<u>9,955</u>	<u>-</u>
Fund Balances:				
Reserved	1,142	267	2,326	-
Unreserved -				
Undesignated -				
General Fund	10,043	-	-	-
Special Revenue Funds	-	129,864	4,090	-
Capital Projects Fund	-	-	-	321,151
Total Equity	<u>11,185</u>	<u>130,131</u>	<u>6,416</u>	<u>321,151</u>
Total Liabilities and Fund Equity	<u>\$ 186,828</u>	<u>\$ 134,846</u>	<u>\$ 16,371</u>	<u>\$ 321,151</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 189,664	\$ 334,256
-	129,620
-	51,239
2,161	5,365
5,014	88,421
20,000	263,399
497	4,232
<u>\$ 217,336</u>	<u>\$ 876,532</u>

\$ 3,135	\$ 26,557
-	4,212
-	481
20,082	131,041
5,200	56,439
<u>28,417</u>	<u>218,730</u>

497	4,232
-	10,043
129,776	263,730
58,646	379,797
<u>188,919</u>	<u>657,802</u>
<u>\$ 217,336</u>	<u>\$ 876,532</u>

VILLAGE OF CAPAC, MICHIGAN

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS JUNE 30, 2006

Fund Balances - total governmental funds	\$	657,802
Amounts reported for governmental activities in the statement of net assets are different because:		
Prepaid expenses are recorded in the funds on the purchase method		26,259
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets		1,505,061
Accumulated depreciation	(609,644)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		51,239
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Notes payable	(147,869)
Lease Payable	(8,784)
Accrued compensated absence	(7,788)
Net Assets of governmental activities	\$	<u>1,466,276</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CAPAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General	Major Street	Police	Water and Sewer Connection Fees
Revenues:				
Taxes	\$ 436,084	\$ -	\$ -	\$ -
Licenses and permits	16,381	-	-	-
Intergovernmental -				
Federal/State	217,130	83,708	10,231	-
Local	6,731	-	21,706	-
Charges for services	-	-	-	26,600
Fines and forfeits	74	-	10,816	-
Interest and rent	4,628	2,079	22	4,403
Other	16,768	-	5,055	2,250
Total Revenues	<u>697,796</u>	<u>85,787</u>	<u>47,830</u>	<u>33,253</u>
Expenditures:				
Current -				
General Government	169,082	-	-	-
Public Safety	-	-	281,248	-
Public Works	143,726	86,806	-	-
Community and Economic Development	34,008	-	-	-
Recreation and Cultural	11,501	-	-	-
Other	39,897	-	-	-
Capital Outlay	-	-	-	970
Debt Service	-	-	16,323	-
Total Expenditures	<u>398,214</u>	<u>86,806</u>	<u>297,571</u>	<u>970</u>
Revenues over (under) expenditures	<u>299,582</u>	<u>(1,019)</u>	<u>(249,741)</u>	<u>32,283</u>
Other Financing Sources (Uses):				
Proceeds from sale of assets	16,990	-	-	-
Transfers in	-	-	256,157	-
Transfers out	(248,208)	(20,899)	-	(67,742)
Total Other Financing Sources (Uses)	<u>(231,218)</u>	<u>(20,899)</u>	<u>256,157</u>	<u>(67,742)</u>
Net Change in Fund Balance	<u>68,364</u>	<u>(21,918)</u>	<u>6,416</u>	<u>(35,459)</u>
Fund Balances at beginning of year	(107,179)	152,049	-	356,610
Prior Period Adjustment	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances at beginning of year, restated	<u>(57,179)</u>	<u>152,049</u>	<u>-</u>	<u>356,610</u>
Fund Balances at end of year	<u>\$ 11,185</u>	<u>\$ 130,131</u>	<u>\$ 6,416</u>	<u>\$ 321,151</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 54,280	\$ 490,364
-	16,381
36,011	347,080
-	28,437
-	26,600
-	10,890
1,654	12,786
2,837	26,910
<u>94,782</u>	<u>959,448</u>
-	169,082
-	281,248
50,581	281,113
-	34,008
-	11,501
-	39,897
77,521	78,491
9,209	25,532
<u>137,311</u>	<u>920,872</u>
<u>(42,529)</u>	<u>38,576</u>
-	16,990
124,943	381,100
<u>(9,603)</u>	<u>(346,452)</u>
<u>115,340</u>	<u>51,638</u>
<u>72,811</u>	<u>90,214</u>
166,108	567,588
<u>(50,000)</u>	<u>-</u>
<u>116,108</u>	<u>567,588</u>
<u>\$ 188,919</u>	<u>\$ 657,802</u>

VILLAGE OF CAPAC, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2006**

Net change in fund balances - total governmental funds	\$	90,214
Change in prepaid expenses recorded in the funds on the purchase method		1,588
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		145,061
Depreciation expense	(55,080)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(7,270)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.		
Principal payments on long term liabilities		19,932
Decrease in accrued compensated absences		<u>2,185</u>
Change in net assets of governmental activities	\$	<u><u>196,630</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CAPAC, MICHIGAN

STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2006

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Trash	Total
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 23,891	\$ 57,545	\$ 15,691	\$ 97,127
Accounts receivable	35,001	80,328	17,209	132,538
Prepaid expenses	960	1,352	-	2,312
Total Current Assets	59,852	139,225	32,900	231,977
Restricted Assets:				
Cash and cash equivalents	62,739	118,188	-	180,927
Investments	-	65,673	-	65,673
Due from other funds	-	32,673	-	32,673
Deposits with County	94,843	-	-	94,843
Total Restricted Assets	157,582	216,534	-	374,116
Noncurrent assets:				
Capital assets	6,196,748	3,175,570	4,836	9,377,154
Less - accumulated depreciation	(2,107,966)	(1,351,065)	(4,736)	(3,463,767)
Total Capital Assets (net)	4,088,782	1,824,505	100	5,913,387
Deferred Charges	20,376	29,948	-	50,324
Total Noncurrent Assets	4,109,158	1,854,453	100	5,963,711
Total Assets	4,326,592	2,210,212	33,000	6,569,804
LIABILITIES:				
Current Liabilities:				
Accounts payable	2,465	2,919	6,061	11,445
Due to other funds	71,419	-	196	71,615
Total Current Liabilities	73,884	2,919	6,257	83,060
Current Liabilities payable from restricted assets:				
Accounts payable	-	235,987	-	235,987
Due to other funds	-	92,916	-	92,916
Current portion of bonds/notes payable	125,000	35,000	-	160,000
Interest payable	12,834	2,573	-	15,407
	137,834	366,476	-	504,310
Noncurrent liabilities (less current portions):				
Accrued vacation and sick	884	2,062	-	2,946
Bonds payable (net of current portion)	960,000	450,000	-	1,410,000
Notes payable (net of current portion)	215,000	-	-	215,000
Total Long-Term Liabilities	1,175,884	452,062	-	1,627,946
Total Liabilities	1,387,602	821,457	6,257	2,215,316
NET ASSETS:				
Investment in capital assets, net	2,796,324	1,037,977	100	3,834,401
Restricted -				
Debt Service	62,739	216,534	-	279,273
Capital Projects	94,843	-	-	94,843
Unrestricted -				
Undesignated	(14,916)	134,244	26,643	145,971
Total Net Assets	\$ 2,938,990	\$ 1,388,755	\$ 26,743	\$ 4,354,488

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CAPAC, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Trash	Total
Operating Revenues:				
Charges for services	\$ 151,190	\$ 372,460	\$ 78,286	\$ 601,936
Other	500	939	3	1,442
Total Operating Revenues	151,690	373,399	78,289	603,378
Operating Expenses:				
Salaries	52,944	64,039	4,489	121,472
Fringe benefits	37,484	45,201	2,969	85,654
Professional fees	-	3,796	700	4,496
Contracted services	3,228	2,993	69,978	76,199
Repairs and maintenance	3,245	1,271	-	4,516
Supplies	3,217	18,272	322	21,811
Utilities	9,030	12,008	-	21,038
Miscellaneous	3,742	15,945	34	19,721
Depreciation	79,004	39,642	100	118,746
Total Operating Expenses	191,894	203,167	78,592	473,653
Operating Income (Loss)	(40,204)	170,232	(303)	129,725
Non-Operating Revenues (Expenses):				
Interest income	6,054	2,723	166	8,943
Interest expense	(58,666)	(18,202)	-	(76,868)
Property taxes	107,640	-	-	107,640
Total Non-Operating Revenues (Expenses)	55,028	(15,479)	166	39,715
Net Income (Loss) Before Transfers	14,824	154,753	(137)	169,440
Transfers:				
Transfers in	16,000	38,000	-	54,000
Net Income (Loss)	30,824	192,753	(137)	223,440
Net Assets at beginning of year	2,908,166	1,196,002	26,880	4,131,048
Net Assets at end of year	\$ 2,938,990	\$ 1,388,755	\$ 26,743	\$ 4,354,488

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CAPAC, MICHIGAN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Sewer	Water	Trash	Total
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 155,356	\$ 365,820	\$ 75,146	\$ 596,322
Cash payments to suppliers	(64,038)	(100,716)	(73,800)	(238,554)
Cash payments to employees	(56,144)	(67,271)	(4,489)	(127,904)
Net Cash Provided (Used) by Operating Activities	<u>35,174</u>	<u>197,833</u>	<u>(3,143)</u>	<u>229,864</u>
Cash Flows From Non-capital Financing Activities:				
Due from/to other funds	(4,012)	105,886	15,000	116,874
Transfers from/to other funds	16,000	38,000	-	54,000
Net Cash Provided from Non-Capital Financing Activities	<u>11,988</u>	<u>143,886</u>	<u>15,000</u>	<u>170,874</u>
Cash Flows From Capital and Related Financing Activities:				
Principle payments	(130,000)	(40,000)	-	(170,000)
Interest payments	(54,447)	(15,838)	-	(70,285)
Property taxes	107,640	-	-	107,640
Acquisition and construction of capital assets	(3,257)	(143,592)	-	(146,849)
Net Cash Used by Capital and Related Financing Activities	<u>(80,064)</u>	<u>(199,430)</u>	<u>-</u>	<u>(279,494)</u>
Cash Flows From Investing Activities:				
Redemption (purchase) of investments	-	(1,692)	3,168	1,476
Change in Deposits with County	(3,083)	-	-	(3,083)
Interest earned	6,054	2,723	166	8,943
Net Cash Provided by Investing Activities	<u>2,971</u>	<u>1,031</u>	<u>3,334</u>	<u>7,336</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	(29,931)	143,320	15,191	128,580
Cash and Cash Equivalents at Beginning of Year	<u>116,561</u>	<u>32,413</u>	<u>500</u>	<u>149,474</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 86,630</u></u>	<u><u>\$ 175,733</u></u>	<u><u>\$ 15,691</u></u>	<u><u>\$ 278,054</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss) for the year	\$(40,204)	\$ 170,232	\$(303)	\$ 129,725
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -				
Depreciation	79,004	39,642	100	118,746
Change in assets and liabilities:				
Receivable	3,666	(7,579)	(3,143)	(7,056)
Prepaid expenses	(960)	(1,352)	-	(2,312)
Accounts payable/accrued expenses	(6,332)	(3,110)	203	(9,239)
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 35,174</u></u>	<u><u>\$ 197,833</u></u>	<u><u>\$(3,143)</u></u>	<u><u>\$ 229,864</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CAPAC
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

	<u>Agency Fund</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 500</u>
LIABILITIES:	
Due to other funds	<u>\$ 500</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Village of Capac, Michigan, was incorporated as a General Law Village in 1857, under provisions of the constitution and general law of the State of Michigan, with its Charter provided by Act 3 of 1895. The Village is located in Western St. Clair County, and covers an area of approximately 2 square miles. The Village operates under an elected Village Council, which consists of the President and six Council members, with the daily activities operated by the Village President. The Village provides services to its approximately 1,500 residents in many areas including law enforcement, water supply, sewage treatment, and other public works, including street maintenance.

These financial statements present the Village and its component units, entities for which the Village is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Village.

DISCRETELY PRESENTED COMPONENT UNIT -

DOWNTOWN DEVELOPMENT AUTHORITY - The Authority is controlled by a nine member Council, who are appointed by the Village President. The DDA is responsible for the creation of a development and financial plan for the Downtown district or a development area within the district to promote economic growth. The Authority must obtain Village Council approval of all development and financial plans. The annual operating budget and any modification also requires the approval of the Village Council.

The Downtown Development Authority was included in the scope of the audit of the basic financial statements. Separate audited financial statements for this component unit were not issued.

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation -

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on September 14, are recognized as revenue in the year due. All other revenue items are considered to be measurable and available only when cash is received by the Village.

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The Village reports the following major governmental funds:

General Fund - is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund - is a special revenue fund used to account for ACT 51 money and other related revenues restricted for major street maintenance and improvements.

Police Fund - is a special revenue fund used to account for the activities of the Police Department.

Water and Sewer Connection Fees Fund - is a capital project fund used to account for the construction of major capital assets for the water and sewer funds.

The Village reports the following major proprietary funds:

Sewer Fund - is used to account for sanitary sewer services provided to the residential and commercial users.

Water Fund - is used to account for the treatment and distribution of water to the residential and commercial users.

Trash Fund - is used to account for the operations and activities of the Village's garbage collection.

Additionally, the government reports the following fund types:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources (other than expectable trusts and major capital projects) that are equally restricted to expenditures for specific purposes.

Capital Project Funds - are used to account for financial resources to be used for the acquisition or construction of major projects (other than these financed by Proprietary Funds).

Agency Fund - is used to account for assets held by the Village as an agent for individuals, other governments and/or funds. The Agency Fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for these business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments -

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, savings, and certificates of deposit with original maturities of three months or less from the date of acquisition.

Receivables and Payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories and Prepaid Items -

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded in the fund financial statements on the purchase method and as prepaid in the government-wide financial statements.

Property Tax Calendar -

The Village's property tax is levied as of July 1 on the assessed valuation of property located in the Village as of the preceding December 31, as adjusted by the March and July Board of Reviews. The taxes are due on September 14, after which they are added to the delinquent tax roll.

Capital Assets -

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. (Assets that were capitalized in the Water and Sewer Funds prior to July 1, 2003 with a value less than \$2,000 were not removed.) Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Village has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets of the primary government, as well as the component unit, are depreciated using the straight line method over the following estimated useful lives.

	<u>Years</u>
Buildings and Improvements	10-50
Utility Systems	10-80
Road Systems/Other	
Infrastructure	20-30
Machinery and Equipment	3-25
Vehicles	3-12

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Long-Term Obligations -

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity -

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information -

The General and Special Revenue Funds budgets shown in the financial statements were prepared on a basis consistent with accounting principles generally accepted in the United States of America and on the same modified accrual basis used to reflect actual results.

The Village President prepares the proposed operating budgets for the year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.

Prior to June 30, the proposed budgets are presented to the Village Council. The Council holds a public hearing and may add to, subtract from, or change appropriations. The budgets are then legally enacted through passage of a Village Council Resolution.

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

The approved budgets of the Village were adopted for the General and Special Revenue Funds at the activity level. These are the enacted levels under the State of Michigan Uniform Budgeting and Accounting Act and the legally adopted levels of the budget. State statutes do not require legally adopted budgets for debt service or capital projects funds.

Budgets are maintained throughout the year at the account level, to provide additional control in preventing over-expenditures at the legally adopted levels. Amendments at the activity level for the General and Special Revenue Funds must be approved by the Village Council.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Budget amounts are reported as originally adopted and as final amended by the Village Council, during the year.

Michigan Public Act 621 of 1978 Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated at the legally enacted level.

During the year ended June 30, 2006, the Village incurred expenditures in the General and Special Revenue Funds, which were in excess of the amounts appropriated at the activity level as follows:

Excess of Expenditures Over Appropriations -

<u>Fund Type/Function/Activity</u>	<u>Final Budget</u>	<u>Expended</u>	<u>Variance</u>
PRIMARY GOVERNMENT -			
General Fund –			
Village Council	\$ 39,165	\$ 39,542	\$ 377
Clerk	38,658	39,641	983
Treasurer	9,950	12,575	2,625
Other	20,000	20,072	72
Street Lighting	-	22,599	22,599
Planning and Zoning	27,568	34,008	6,440
Major Street Fund –			
Traffic Services	-	2,277	2,277

Other -

As of June 30, 2006, the Sewer Fund had an unrestricted net assets deficit of \$14,916.

Bank certifications had not been received from one financial institution.

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2006, the carrying amount of the deposits is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>	<u>Total</u>
Deposits -				
Deposits with Financial Institutions -				
Checking/Money Market	\$ 503,083	\$ 500	\$ 278,670	\$ 782,253
Savings/Certificates of Deposit	<u>304,520</u>	<u>-</u>	<u>-</u>	<u>304,520</u>
Total Deposits	<u>\$ 807,603</u>	<u>\$ 500</u>	<u>\$ 278,670</u>	<u>\$1,086,773</u>
Reconciliation to Combined Balance Sheet				
Reported as Cash and Cash Equivalents -				
Cash in Checking/Money Market	\$ 503,083	\$ 500	\$ 278,670	\$ 782,253
Certificates of Deposit	109,227	-	-	109,227
Reported as Investments -				
Certificates of Deposit	<u>195,293</u>	<u>-</u>	<u>-</u>	<u>195,293</u>
	<u>\$ 807,603</u>	<u>\$ 500</u>	<u>\$ 278,670</u>	<u>\$1,086,773</u>

Deposits -

The Village's investment policy and Act 217 PA 1982, as amended, authorize the Village to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, by section 21.145 and 21.146 of the Michigan Compiled Laws.

The Village's investment policy primary objectives, in order of priority, are safety, diversification, liquidity, and return on investment. The Village's Treasurer is responsible for the investment program.

Custodial Credit Risk – is the risk that in the event of a bank failure, the Village's deposits may not be returned. As an indication of the level of deposit custodial credit risk assumed by the Village, as of June 30, 2006, the bank balance of the Village's deposits was \$817,864, of which \$423,547 was FDIC insured with the remaining balance of \$394,317 uninsured and uncollateralized. In addition, the component unit had a bank balance of \$278,670 of which \$123,535 was covered by FDIC insurance, with the remaining balance uninsured and uncollateralized.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 - TAXES:

The Village property taxes are levied each July on the assessment valuation of the property in the Village as of the preceding December 31, as adjusted by the March and July Board of Review.

Assessed values are established annually by the respective Village/Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property for the Village of Capac for the fiscal year 2006 had a Taxable Equalized Value of \$34,016,599 and a State Equalized Value (SEV) of \$45,859,089. The millage rates levied by the Village were 13.7157 for the General Fund, 1.7101 mills for Street Improvements, and 3.4135 for CSO Sewer Bond.

The County of St. Clair has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

Interfund receivable and payable balances described as Due From and Due To Other Funds on the Balance Sheet reflect amounts due or owed to a particular fund by another fund of the Village. These amounts include only short-term obligations on open accounts, and not current portions of long-term loans.

A summary of these balances by fund type at June 30, 2006, is as follows:

Due To/From Other Funds -

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Local Street Fund	\$ 10,082
	Street Improvement Fund	10,000
	Sewer Fund	10,487
	Trash	196
	Trust and Agency	500
Major Street Fund	General Fund	18,988
Police Fund	General Fund	7,230
Water and Sewer Connection Fees	General Fund	50,000
	Water Fund	92,916
	Sewer Fund	43,000
Water Fund	General Fund	14,741
	Sewer Fund	17,932
Nonmajor Governmental Funds – Equipment Replacement		
	General Fund	<u>20,000</u>
		<u>\$ 296,072</u>

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS – (cont'd):

Transfers From/To Other Funds –

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Police Fund	General Fund	\$ 246,554 (1)
	Equipment Replacement Fund	9,603 (2)
Sewer Fund	Water/Sewer Connection Fees Fund	16,000 (1)
Water Fund	Water/Sewer Connection Fees Fund	38,000 (1)
Nonmajor Government Funds - Streetscape Fund	General Fund	500 (4)
	Water/Sewer Connection Fees Fund	13,742 (1)
	DDA - Component Unit	89,802 (6)
Local Street Fund	Major Street Fund	20,899 (5)
Component Unit - DDA	General Fund	<u>1,154 (3)</u>
		<u>\$ 436,254</u>

- (1) Transfer to cover operations
- (2) Transfer for the payment of debt
- (3) Transfer to cover indirect costs
- (4) To set up new account
- (5) To transfer percentage of Act 51 money
- (6) To cover costs of construction project

NOTE 6 - CAPITAL ASSETS:

Capital asset activity of the primary government for the year ended June 30, 2006 was as follows:

Primary Government

	<u>July 1, 2005</u>		<u>June 30, 2006</u>
	<u>Balance</u>	<u>Additions</u>	<u>Balance</u>
Governmental activities:			
Capital assets, not being depreciated:			
Land	\$ 99,254	\$ -	\$ 99,254
Construction in progress	<u>42,808</u>	<u>107,784</u>	<u>150,592</u>
Total capital assets, not being depreciated	<u>142,062</u>	<u>107,784</u>	<u>249,846</u>
Capital assets, being depreciated:			
Land Improvements	86,779	-	86,779
Buildings and improvements	644,908	9,760	654,668
Machinery and equipment	219,523	-	219,523
Vehicles	260,176	-	246,245
Infrastructure	<u>20,483</u>	<u>27,517</u>	<u>48,000</u>
Total capital assets being depreciated	<u>1,231,869</u>	<u>37,277</u>	<u>1,255,215</u>

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 6 – CAPITAL ASSETS – (cont'd):

	July 1, 2005			June 30, 2006
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Less accumulated depreciation for:				
Land Improvements	\$ 21,589	\$ 4,339	\$ -	\$ 25,928
Buildings and Improvements	260,867	14,204	-	275,071
Machinery and equipment	130,684	14,554	-	145,238
Vehicles	154,720	21,573	(13,931)	162,362
Infrastructure	<u>635</u>	<u>410</u>	<u>-</u>	<u>1,045</u>
Total accumulated depreciation	568,495	55,080	(13,931)	609,644
Total capital assets, being depreciated, net	<u>663,374</u>	<u>(17,803)</u>	<u>-</u>	<u>645,571</u>
 Governmental activities capital assets, net	 <u>\$ 805,436</u>	 <u>\$ 89,981</u>	 <u>\$ -</u>	 <u>\$ 895,417</u>
 Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 39,000	\$ -	\$ -	\$ 39,000
Construction in progress	<u>101,372</u>	<u>376,322</u>	<u>-</u>	<u>477,694</u>
Total capital assets, not being depreciated	<u>140,372</u>	<u>376,322</u>	<u>-</u>	<u>516,694</u>
 Capital assets, being depreciated				
Utility systems	8,797,570	6,514	-	8,804,084
Machinery and equipment	<u>56,376</u>	<u>-</u>	<u>-</u>	<u>56,376</u>
Total capital assets being depreciated	<u>8,853,946</u>	<u>6,514</u>	<u>-</u>	<u>8,860,460</u>
 Less accumulated depreciation for:				
Utility systems	3,292,960	117,249	-	3,410,209
Machinery and equipment	<u>52,061</u>	<u>1,497</u>	<u>-</u>	<u>53,558</u>
Total accumulated depreciation	<u>3,345,021</u>	<u>118,746</u>	<u>-</u>	<u>3,463,767</u>
 Total capital assets, being depreciated, net	 <u>5,508,925</u>	 <u>(112,232)</u>	 <u>-</u>	 <u>5,396,693</u>
 Business-type activities, capital assets, net	 <u>\$ 5,649,297</u>	 <u>\$ 264,090</u>	 <u>\$ -</u>	 <u>\$ 5,913,387</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 10,346
Public Safety	15,176
Public Works	22,896
Recreation/Culture	<u>6,662</u>
 Total depreciation expense - governmental activities	 <u>\$ 55,080</u>
 Business-type activities:	
Sewer	\$ 79,004
Water	39,642
Trash	<u>100</u>
 Total depreciation expense - business-type activities	 <u>\$ 118,746</u>

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 6 – CAPITAL ASSETS – (cont'd):

Component Unit (DDA)	<u>July 1, 2005</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u> <u>Balance</u>
Capital assets not being depreciated				
Land	\$ 9,783	-	-	\$ 9,783

NOTE 7 - LONG-TERM LIABILITIES:

The following is a summary of changes in the long-term liabilities (including current portions) for the year ended June 30, 2006:

	<u>Balance</u> <u>July 1,</u> <u>2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30,</u> <u>2006</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Police Building Note Payable	\$ 158,593	\$ -	\$ 10,724	\$ 147,869	\$ 4,427
DPW Truck Capital Lease	17,992	-	9,208	8,784	8,784
Accrued sick and vacation	<u>9,973</u>	<u>-</u>	<u>2,185</u>	<u>7,788</u>	<u>-</u>
Total Governmental Funds	<u>186,558</u>	<u>-</u>	<u>22,117</u>	<u>164,441</u>	<u>13,211</u>
<u>Business-type Activities:</u>					
Michigan Water Pollution Control Loan	295,000	-	40,000	255,000	40,000
2000 Sewage Disposal System No. X Bonds	665,000	-	30,000	635,000	30,000
2004 Water Supply System Refunding Bonds	525,000	-	40,000	485,000	35,000
2004 Sewage Disposal System No. X Refunding Bonds	470,000	-	60,000	410,000	55,000
Accrued sick and vacation	<u>2,947</u>	<u>-</u>	<u>1</u>	<u>2,946</u>	<u>-</u>
Total Business-type Activities	<u>1,957,947</u>	<u>-</u>	<u>170,001</u>	<u>1,787,946</u>	<u>160,000</u>
Total Entity Primary Government	<u>\$ 2,144,505</u>	<u>\$ -</u>	<u>\$ 192,118</u>	<u>\$ 1,952,387</u>	<u>\$ 173,211</u>

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

Police Building Loan:

The Village refinanced the loans to purchase and remodel the police station in the amount of \$150,281. The loan is to be repaid in monthly installments of \$1,008, including interest of 5.25% through December 2015, at which point a balloon payment will be due.

\$ 147,869

Truck Note:

The Village entered into a lease/purchase for the purchase of a Ford pick-up. The note is to be repaid in July 2006.

\$ 8,784

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 - LONG-TERM LIABILITIES - (cont'd):

Accrued Vacation and Sick Pay:

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights have been accrued on the financial statements.

\$ 7,788

The annual requirements to amortize the following loans outstanding at June 30, 2006 are as follows:

	<u>Police Note</u>		<u>Truck Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 4,427	\$ 7,671	\$ 8,784	\$ 426
2008	4,666	7,432	-	-
2009	4,917	7,181	-	-
2010	5,181	6,917	-	-
2011	5,460	6,638	-	-
2012-2015	<u>123,218</u>	<u>26,004</u>	<u>-</u>	<u>-</u>
	<u>\$ 147,869</u>	<u>\$ 61,843</u>	<u>\$ 8,784</u>	<u>\$ 426</u>

Water Supply System Revenue Refunding Bonds, Series 2004:

The 2004 \$570,000 Water Supply System Revenue Refunding Bonds, Dated February 18, 2004, due in annual installments ranging from \$35,000 to \$45,000 through November 1, 2018, with interest ranging from 2.0 to 4.125 percent, payable semi-annually. These bonds were issued to pay off the 1989 Water Supply System Revenue bonds of \$555,000.

\$ 485,000

The annual requirements to amortize the following Water supply system bond and loan outstanding at June 30, 2006 are as follows:

	<u>2004 Water Supply System Refunding Bond</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 35,000	\$ 15,089
2008	40,000	14,339
2009	35,000	13,536
2010	40,000	12,614
2011	40,000	11,494
2012-2016	185,000	39,494
2017-2019	<u>110,000</u>	<u>6,709</u>
	<u>\$ 485,000</u>	<u>\$ 113,275</u>

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 - LONG-TERM LIABILITIES - (cont'd):

Michigan Water Pollution Control Revolving Loan Fund Program:

To cover part of the construction cost of the Sewage Disposal System, the Village borrowed \$780,000 through the Michigan Municipal Bond Authority as part of the Michigan Water Pollution Control Revolving Loan Fund Program. The total amount of loan money available was \$780,000, however only \$750,409 was drawn. The loan, dated September 26, 1991, is due in annual installments ranging from \$40,000 to \$45,000 through October 1, 2011, with interest of 2%, payable semi-annually.

\$ 255,000

Sewage Disposal System No. X Bonds, Series 2000:

The 2000 \$790,000 Sewage Disposal System Bonds, dated August 1, 2000, due in annual installments ranging from \$30,000 to \$65,000 through April 1, 2020, with interest ranging from 5.00 to 5.55 percent, payable semi-annually.

\$ 635,000

Sewage Disposal System No. X Refunding Bonds, Series 2004:

The 2004 Sewage Disposal System No. X Refunding Bonds, dated May 18, 2004, due in annual installments ranging from \$55,000 to \$75,000 through October 1, 2011, with interest ranging from 2.0 to 3.75 percent, payable semi-annually.

\$ 410,000

The annual requirements to amortize the following Sewage disposal system bonds and notes outstanding at June 30, 2006 are as follows:

	Michigan Water Pollution Revolving Loan		2000 Sewage Disposal System Bond		2004 Sewage Disposal System Refunding Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 40,000	\$ 4,700	\$ 30,000	\$ 33,815	\$ 55,000	\$ 11,870
2008	40,000	3,900	30,000	32,315	65,000	10,508
2009	45,000	3,050	35,000	30,815	65,000	8,785
2010	40,000	2,200	35,000	29,065	75,000	6,656
2011	45,000	1,350	40,000	27,315	75,000	4,125
2012-2016	45,000	450	230,000	103,633	75,000	1,406
2017-2020	-	-	235,000	33,550	-	-
	<u>\$ 255,000</u>	<u>\$ 15,650</u>	<u>\$ 635,000</u>	<u>\$ 290,508</u>	<u>\$ 410,000</u>	<u>\$ 43,350</u>

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 8 - EMPLOYEE PENSION PLAN:

Plan Description -

The Village of Capac participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Village Council requires no member contributions. The Village is required to contribute at an actuarially determined rate; the rate for fiscal 2006 ranged from 11.55 to 38.82 percent based on employee groups. The contribution requirements of plan members and the Village are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

Annual Pension Costs -

For fiscal 2006, the Village's annual pension cost of \$82,293 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.0 - 2.5% annually. The actuarial value of MERS assets was determined on the basis of the evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending, June 30</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2004	\$ 80,723	100 %	\$ -
2005	106,823	100	-
2006	82,293	100	-

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 8 - EMPLOYEE PENSION PLAN – (cont'd):

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2003	\$ 761,712	\$ 1,592,289	\$ 830,577	48 %	\$ 365,672	227 %
2004	806,135	1,626,786	820,651	50	431,564	190
2005	854,521	1,687,660	833,139	51	298,442	279

NOTE 9 - POST RETIREMENT BENEFITS:

In addition to the pension benefits described in Note 8, the Village of Capac provides health and life insurance benefits on certain retired supervisors. The benefits are paid as incurred. The amount paid on behalf of these four retirees for the year ended June 30, 2006 was \$57,233.

NOTE 10 - RESERVED FUND BALANCE/RESTRICTED NET ASSETS:

Reserved Fund Balance -

Fund Balance has been reserved in various governmental funds to indicate the portion of Fund Balance not available but reserved for a specific purpose. The following is a summary of Reserved Fund Balance for all Village funds at June 30, 2006:

Fund Type/Fund	Description	Amount
General Fund	Prepaid Expense	\$ 1,142
Major Street Fund	Prepaid Expense	267
Police Fund	Prepaid Expense	2,326

Restricted Net Assets -

Net Assets have been restricted in various proprietary funds to indicate that portions are restricted for specific purposes. The following net assets are restricted at June 30, 2006:

Fund Type/Fund	Description	Amount
Sewer Fund	Debt Retirement/Construction	\$ 157,582
Water Fund	Debt Retirement	216,534
		<u>\$ 374,116</u>

VILLAGE OF CAPAC, MICHIGAN
St. Clair County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 11 - RISK MANAGEMENT:

General Liability and Property

The Village participates in the Michigan Municipal League Liability and Property Pool insurance plan. In general the Village carries \$2,000,000 of liability coverage and approximately \$2,400,000 of property insurance with a \$1,000 per claim deductible on property and \$0-\$5,000 on liability.

Workers' Compensation

The Village participates in the Michigan Municipal Worker's Compensation Self-Insurance Fund administered by the Michigan Municipal League. The fund provides coverage of workers' compensation claims subjected to a maximum of \$500,000 per occurrence.

NOTE 12 – COMMITMENTS:

The Village has committed to the following contracts for the water system improvements at June 30, 2006. (These commitments do not include contracts which have been agreed to or change orders made after June 30, 2006.)

	<u>Contract Amount</u>	<u>Payables/ Payments Through 6/30/06</u>	<u>Remaining Balance 6/30/06</u>
Well Drilling	\$ 151,000	\$ 114,680	\$ 36,320
Engineering	327,500	186,117	141,383

NOTE 13 - PRIOR PERIOD ADJUSTMENT:

The prior period adjustment shown in the General Fund and the Street Improvement Fund for \$50,000 is due to a change in reporting the amount as a due to/from verse a transfer for expenditures in the general fund for street improvements.

The prior period adjustment in the Downtown Development Authority Component Unit represents a change in taxes due from other municipalities.

NOTE 14 – SUBSEQUENT EVENTS:

On August 21, 2006, the Village issued \$2,652,000 in Water Supply System Bonds at 4.125% interest through USDA Rural Development for improvements to the Village's water supply system. The Village draws funds as they are needed, and principal payments are scheduled from August 2007 through August 2047 ranging from \$27,000 to \$128,000.

The Village also entered into a vehicle lease agreement after the end of the year. The lease is for a vehicle for the police department and is payable in three annual installments of \$9,603 including interest at 6.8%.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF CAPAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2006

GENERAL FUND

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 437,448	\$ 435,954	\$ 436,084	\$ 130
Licenses and permits	12,000	15,342	16,381	1,039
Intergovernmental -				
Federal/State	254,809	219,315	217,130	(2,185)
Local	6,731	6,731	6,731	-
Fines and forfeits	7,500	74	74	-
Interest and rents	526	2,800	4,628	1,828
Other	7,814	12,750	16,768	4,018
Total Revenues	<u>726,828</u>	<u>692,966</u>	<u>697,796</u>	<u>4,830</u>
Expenditures:				
Current -				
General Government -				
Village Council	38,650	39,165	39,542	(377)
Village Manager	30,054	13,600	12,399	1,201
Elections	630	2,333	2,333	-
Clerk	36,017	38,658	39,641	(983)
Treasurer	24,800	9,950	12,575	(2,625)
Building & Grounds	28,303	45,783	42,520	3,263
Other	6,600	20,000	20,072	(72)
	<u>165,054</u>	<u>169,489</u>	<u>169,082</u>	<u>407</u>
Public Safety -				
Police	<u>255,879</u>	<u>-</u>	<u>-</u>	<u>-</u>
Public Works -				
Department of Public Works	131,499	134,084	121,127	12,957
Street Lighting	24,000	-	22,599	(22,599)
	<u>155,499</u>	<u>134,084</u>	<u>143,726</u>	<u>(9,642)</u>
Community and Economic Development -				
Planning & Zoning	<u>23,958</u>	<u>27,568</u>	<u>34,008</u>	<u>(6,440)</u>
Recreation and Culture				
Parks & Recreation	14,771	6,460	3,781	2,679
Library	9,918	8,890	7,720	1,170
	<u>24,689</u>	<u>15,350</u>	<u>11,501</u>	<u>3,849</u>
Other	<u>45,262</u>	<u>47,885</u>	<u>39,897</u>	<u>7,988</u>
Contingencies	<u>-</u>	<u>50,696</u>	<u>-</u>	<u>50,696</u>
Total Expenditures	<u>670,341</u>	<u>445,072</u>	<u>398,214</u>	<u>46,858</u>
Revenues over expenditures	<u>56,487</u>	<u>247,894</u>	<u>299,582</u>	<u>51,688</u>

VILLAGE OF CAPAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2006

GENERAL FUND

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Other Financing Sources (Uses):				
Proceeds from sale of assets	-	16,990	16,990	-
Transfers in	5,683	-	-	-
Transfers out	-	(264,884)	(248,208)	16,676
Total Financing Sources (Uses)	<u>5,683</u>	<u>(247,894)</u>	<u>(231,218)</u>	<u>16,676</u>
Net Change in Fund Balance	<u>62,170</u>	<u>-</u>	<u>68,364</u>	<u>68,364</u>
Fund Deficit at beginning of year	(107,179)	(107,179)	(107,179)	-
Prior Period Adjustments	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Fund Deficit at beginning of year, restated	<u>(57,179)</u>	<u>(57,179)</u>	<u>(57,179)</u>	<u>-</u>
Fund Balance (Deficit) at end of year	<u><u>\$ 4,991</u></u>	<u><u>\$(57,179)</u></u>	<u><u>\$ 11,185</u></u>	<u><u>\$ 68,364</u></u>

VILLAGE OF CAPAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2006

MAJOR STREET FUND

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental -				
State	\$ 88,588	\$ 87,000	\$ 83,708	\$(3,292)
Interest	574	1,100	2,079	979
Total Revenues	<u>89,162</u>	<u>88,100</u>	<u>85,787</u>	<u>(2,313)</u>
Expenditures:				
Public Works -				
Administrative	6,685	11,240	8,370	2,870
Routine Maintenance	12,063	30,825	16,454	14,371
Winter Maintenance	13,879	11,900	10,837	1,063
Traffic Service	-	-	2,277	(2,277)
Construction	-	48,868	48,868	-
Total Expenditures	<u>32,627</u>	<u>102,833</u>	<u>86,806</u>	<u>16,027</u>
Revenues over (under) expenditures	56,535	(14,733)	(1,019)	13,714
Other Financing Uses:				
Transfer Out	(21,925)	(22,147)	(20,899)	1,248
Net Change in Fund Balance	34,610	(36,880)	(21,918)	14,962
Fund Balance at beginning of year	<u>152,049</u>	<u>152,049</u>	<u>152,049</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 186,659</u></u>	<u><u>\$ 115,169</u></u>	<u><u>\$ 130,131</u></u>	<u><u>\$ 14,962</u></u>

VILLAGE OF CAPAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2006

POLICE FUND

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental -				
Federal/State	\$ -	\$ 2,616	\$ 10,231	\$ 7,615
Local	-	20,000	21,706	1,706
Fines and forfeits	-	14,100	10,816	(3,284)
Interest and rent	-	8	22	14
Other	-	2,000	5,055	3,055
Total Revenues	<u>-</u>	<u>38,724</u>	<u>47,830</u>	<u>9,106</u>
Expenditures:				
Current -				
Public Safety	-	285,631	281,248	4,383
Debt Service	<u>-</u>	<u>16,323</u>	<u>16,323</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>301,954</u>	<u>297,571</u>	<u>4,383</u>
Revenues under expenditures	-	(263,230)	(249,741)	13,489
Other Financing Sources:				
Transfer In	<u>-</u>	<u>263,230</u>	<u>256,157</u>	<u>(7,073)</u>
Net Change in Fund Balance	-	-	6,416	6,416
Fund Balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,416</u>	<u>\$ 6,416</u>

OTHER SUPPLEMENTARY INFORMATION

VILLAGE OF CAPAC, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2006

	Special Revenue Funds		Capital Projects Fund		
	Local Street	Street Improvement	Street Scape	Equipment Replacement	Total
ASSETS					
Cash and cash equivalents	\$ 33,067	\$ 116,191	\$ 28,888	\$ 11,518	\$ 189,664
Accounts receivable	2,161	-	-	-	2,161
Due from other funds	-	-	-	20,000	20,000
Due from other governmental units - State	5,014	-	-	-	5,014
Prepaid expenses	497	-	-	-	497
Total Assets	<u>\$ 40,739</u>	<u>\$ 116,191</u>	<u>\$ 28,888</u>	<u>\$ 31,518</u>	<u>\$ 217,336</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,375	\$ -	\$ 1,760	\$ -	\$ 3,135
Deferred revenue	5,200	-	-	-	5,200
Due to other funds	10,082	10,000	-	-	20,082
Total Liabilities	<u>16,657</u>	<u>10,000</u>	<u>1,760</u>	<u>-</u>	<u>28,417</u>
Fund Balances:					
Reserved	497	-	-	-	497
Unreserved - Undesignated	23,585	106,191	27,128	31,518	188,422
Total Fund Balances	<u>24,082</u>	<u>106,191</u>	<u>27,128</u>	<u>31,518</u>	<u>188,919</u>
Total Liabilities and Fund Balances	<u>\$ 40,739</u>	<u>\$ 116,191</u>	<u>\$ 28,888</u>	<u>\$ 31,518</u>	<u>\$ 217,336</u>

VILLAGE OF CAPAC, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds		Capital Projects Funds		
	Local Street	Street Improvement	Street Scape	Equipment Replacement	Total
Revenues:					
Taxes	\$ -	\$ 54,280	\$ -	\$ -	\$ 54,280
Intergovernmental -					
State	36,011	-	-	-	36,011
Interest	93	1,418	-	143	1,654
Other	2,161	-	-	676	2,837
Total Revenues	<u>38,265</u>	<u>55,698</u>	<u>-</u>	<u>819</u>	<u>94,782</u>
Expenditures:					
Current -					
Public Works	50,181	400	-	-	50,581
Capital Outlay	-	-	76,916	605	77,521
Debt Service	-	-	-	9,209	9,209
Total Expenditures	<u>50,181</u>	<u>400</u>	<u>76,916</u>	<u>9,814</u>	<u>137,311</u>
Revenues over (under) expenditures	<u>(11,916)</u>	<u>55,298</u>	<u>(76,916)</u>	<u>(8,995)</u>	<u>(42,529)</u>
Other Financing Sources (Uses):					
Transfers in	20,899	-	104,044	-	124,943
Transfers out	-	-	-	(9,603)	(9,603)
Total Other Financing Source (Uses)	<u>20,899</u>	<u>-</u>	<u>104,044</u>	<u>(9,603)</u>	<u>115,340</u>
Net Change in Fund Balances	<u>8,983</u>	<u>55,298</u>	<u>27,128</u>	<u>(18,598)</u>	<u>72,811</u>
Fund Balances at beginning of year	15,099	100,893	-	50,116	166,108
Prior period adjustment	-	(50,000)	-	-	(50,000)
Fund Balances at beginning of year, restated	<u>15,099</u>	<u>50,893</u>	<u>-</u>	<u>50,116</u>	<u>116,108</u>
Fund Balances at end of year	<u>\$ 24,082</u>	<u>\$ 106,191</u>	<u>\$ 27,128</u>	<u>\$ 31,518</u>	<u>\$ 188,919</u>

VILLAGE OF CAPAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
LOCAL STREET			
Revenues:			
Intergovernmental -			
State	\$ 36,385	\$ 36,011	\$(374)
Interest	100	93	(7)
Other	-	2,161	2,161
Total Revenues	<u>36,485</u>	<u>38,265</u>	<u>1,780</u>
Expenditures:			
Public Works -			
Administration	2,595	2,291	304
Routine Maintenance	43,041	36,804	6,237
Winter Maintenance	9,600	8,898	702
Traffic Services	2,188	2,188	-
Other	1,208	-	1,208
Total Expenditures	<u>58,632</u>	<u>50,181</u>	<u>8,451</u>
Revenues under expenditures	(22,147)	(11,916)	10,231
Other Financing Sources:			
Transfers in	<u>22,147</u>	<u>20,899</u>	<u>(1,248)</u>
Net Change in Fund Balance	-	8,983	8,983
Fund Balance at beginning of year	<u>15,099</u>	<u>15,099</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 15,099</u></u>	<u><u>\$ 24,082</u></u>	<u><u>\$ 8,983</u></u>

Continued

VILLAGE OF CAPAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
STREET IMPROVEMENT			
Revenues:			
Taxes	\$ 54,343	\$ 54,280	\$(63)
Interest	964	1,418	454
Total Revenues	<u>55,307</u>	<u>55,698</u>	<u>391</u>
Expenditures:			
Public Works -			
Other	<u>51,734</u>	<u>400</u>	<u>51,334</u>
Revenues over expenditures	3,573	55,298	51,725
Other Financing Uses:			
Transfers Out	<u>(3,573)</u>	<u>-</u>	<u>3,573</u>
Net Change in Fund Balance	<u>-</u>	<u>55,298</u>	<u>55,298</u>
Fund Balance at beginning of year	100,893	100,893	-
Prior period adjustment	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Fund Balance at beginning of year, restated	<u>50,893</u>	<u>50,893</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 50,893</u></u>	<u><u>\$ 106,191</u></u>	<u><u>\$ 55,298</u></u>

Concluded

VILLAGE OF CAPAC, MICHIGAN

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUND - TRUST AND AGENCY FUND FOR THE YEAR ENDED JUNE 30, 2006

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
Assets:				
Cash and cash equivalents	\$ 1,357	\$ -	\$ 857	\$ 500
Due from county	1,034	-	1,034	-
Total Assets	<u>\$ 2,391</u>	<u>\$ -</u>	<u>\$ 1,891</u>	<u>\$ 500</u>
Liabilities:				
Due to other funds	\$ -	\$ 500	\$ -	\$ 500
Due to other governmental units -				
State	2,001	-	2,001	-
County	390	-	390	-
Total Liabilities	<u>\$ 2,391</u>	<u>\$ -</u>	<u>\$ 2,391</u>	<u>\$ -</u>

COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY

VILLAGE OF CAPAC, MICHIGAN

BALANCE SHEET/STATEMENT OF NET ASSETS DOWNTOWN DEVELOPMENT AUTHORITY JUNE 30, 2006

	Governmental Fund	GASB 34 Adjustments	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 278,670	\$ -	\$ 278,670
Capital Assets (net of accumulated depreciation)			
Assets not being depreciated	-	9,783	9,783
Total Assets	<u>\$ 278,670</u>	<u>\$ 9,783</u>	<u>\$ 288,453</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 736	\$ -	\$ 736
Fund Balance:			
Unreserved	277,934	(277,934)	
Total Liabilities and Fund Balance	<u>\$ 278,670</u>		
Net Assets:			
Investment in capital assets, net		9,783	9,783
Unrestricted		277,934	277,934
Total Net Assets		<u>\$ 287,717</u>	<u>\$ 287,717</u>

VILLAGE OF CAPAC, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2006**

Fund Balance - Downtown Development Authority	\$ 277,934
Amounts reported for Component Unit activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	<u>9,783</u>
Net Assets of Downtown Development Authority	<u><u>\$ 287,717</u></u>

VILLAGE OF CAPAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/ STATEMENT OF ACTIVITIES DOWNTOWN DEVELOPMENT AUTHORITY FOR THE YEAR ENDED JUNE 30, 2006

	<u>Governmental Fund</u>	<u>GASB 34 Adjustments</u>	<u>Statement of Activities</u>
Revenues:			
Taxes	\$ 55,762	\$ -	\$ 55,762
Interest	4,506	-	4,506
	<u>60,268</u>	<u>-</u>	<u>60,268</u>
Expenditures/Expenses:			
Current -			
Public Works	<u>2,797</u>	<u>-</u>	<u>2,797</u>
Revenues over expenditures	<u>57,471</u>	<u>-</u>	<u>57,471</u>
Other Financing Sources (Uses):			
Transfers from Primary Government	1,154	-	1,154
Transfers to Primary Government	<u>(89,802)</u>	<u>-</u>	<u>(89,802)</u>
	<u>(88,648)</u>	<u>-</u>	<u>(88,648)</u>
Net Change in Fund Balance/Net Assets	<u>(31,177)</u>	<u>-</u>	<u>(31,177)</u>
Fund Balance/Net Assets at beginning of year	321,214	9,783	330,997
Prior Period Adjustment	<u>(12,103)</u>	<u>-</u>	<u>(12,103)</u>
Fund Balance/Net Assets at beginning of year, restated	<u>309,111</u>	<u>9,783</u>	<u>318,894</u>
Fund Balance/Net Assets at end of year	<u><u>\$ 277,934</u></u>	<u><u>\$ 9,783</u></u>	<u><u>\$ 287,717</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the President and Members of
the Village Council
Capac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Capac, Michigan, as of and for the year ended June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Capac, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted the following matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Capac's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited maybe occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described above is not a material weakness.

There is a lack of segregation of duties over the utility billing process.

There is a lack of segregation of duties over the utility billing process, in that the same individual prepares the billings, mails the bills, posts the activity to the utility billing system, makes adjustments and receipts cash.

We recommend that the billing and collection process be separated as much as possible and all significant adjustments be approved.

All cash should be receipted at the time of payment and deposits should be made on a timely basis.

Currently taxes are not receipted at the time of collection, but rather set aside and given to the Treasurer for deposit at a later date. Controls should be improved by receipting all cash receipts at the time of collection, including tax payments. If receipting individual tax receipts is not feasible then taxes collected should be batched and one receipt written for the total batch. The batch of the individual receipts should be maintained to agree with the deposit.

Also, when the Police Department brings over cash receipts, a Village receipt should be written documenting the amount received with a copy provided to the Police Department for their records.

We also noted that cash collected by the Police Department is only deposited with the Village on a monthly basis. To increase controls and maximize interest, we recommend that deposits be made at the Village at least weekly, and more often if receipts are significant.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Capac, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of the Village of Capac in a separate letter dated October 25, 2006.

This report is intended solely for the information and use of the audit committee, management and the Village Council of the Village of Capac, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

October 25, 2006

MANAGEMENT LETTER

To the President and Members of
the Village Council
Capac, Michigan

As you know, we have recently completed our audit of the basic financial statements of the Village of Capac, Michigan as of and for the year ended June 30, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the Village's recordkeeping system. This suggestion is a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in *the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, dated October 25, 2006, the condition described below is not considered a reportable condition or material weakness.

The amount the Village Clerk received in compensation for the fiscal year appears to be less than the contract amount.

During our audit we noted that the amount the Village Clerk was paid appeared to be less than the contract amount by approximately \$5,800. We recommend that the difference be reviewed and the pay be adjusted or the contract revised.

This report is intended solely for the information and use of the Village Council, management, others within the organization, the Michigan Department of Treasury and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Stewart, Beauvais & Whipple".

October 25, 2006